

Message Text

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S E C R E T KUALA LUMPUR 3109

E.O. 11652 GDS
TAGS: PINT, MY
SUBJ: COMMENTS ON REPORTED GOM PLAN TO CONTROL FOREIGN
INVESTMENTS

REF: STATE 120828

1. FOR SOME TIME, GOM POLICY HAS BEEN TO BALANCE FOREIGN INVESTMENT BY NATIONALITY, MALAYSIA NOT WISHING TO BE OVERLY DEPENDENT ON ANY ONE SOURCE. PROMINENCE OF SINGAPORE, UK, JAPAN AND US (IN THAT ORDER) REQUIRES DIVERSIFICATION, WHICH HAS BEEN ACTIVELY PURSUED. WHILE FRANCE, ITALY AND ARABS MAY HAVE SOME SPECIAL POLITICAL CHARACTERISTICS, RECENT EFFORTS IN NEW AREAS COULD ALSO REFLECT ECONOMIC NEED SINCE MALAYSIA FEELING IMPACT OF WORLD-WIDE RECESSION (REDUCED EXPORTS, REVENUES, FOREIGN INVESTMENT) AND FACT THAT INVESTMENT FROM THESE COUNTRIES HERETOFORE NOMINAL. US INVESTORS ARE ENCOUNTERING INCREASED DIFFICULTIES IN SEVERAL AREAS BUT, AS YET, WE HAVE NO EVIDENCE OF BIAS OR DISCRIMINATION.

2. PETROLEUM ACT AND AMENDMENT PROVIDE MORE THAN ADEQUATE MECHANISMS FOR PROMPT NATIONALIZATION OF OIL INDUSTRY BUT GOM INTENTIONS, AS YET UNCLEAR, EXPECTED TO BE REVEALED IN IMPLEMENTATION THESE ACTS. (WHILE IT IS EXPECTED THAT THE GOM WOULD TAKE ALL IT CAN GET, WE DO NOT YET KNOW HOW MUCH THEY THINK THE TRAFFIC WILL BEAR). GOM HAS EXPRESSED GREAT CONCERN THAT ITS ACTIONS IN PETROLEUM SECTOR MIGHT BE
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CONSTRUED AS NATIONALIZATION. THIS, OF COURSE, WOULD

BE SERIOUS PROBLEM SINCE GOM DOES NOT HAVE FUNDS TO PAY FOR FULL VALUE OF THESE ASSETS. HENCE EFFORT TO GET CONTROL ON THE CHEAP. PRESUME FRANCE, FED. REPUBLIC OF GERMANY AND ITALY WOULD WEIGH CAREFULLY THE EXPERIENCE OF OTHER FOREIGN INVESTORS IN PETROLEUM IN MALAYSIA BEFORE DECIDING TO PROCEED. AND WHILE WE DO NOT FORESEE PETRONAS OFFERING OTHERS TERMS MORE FAVORABLE THAN WOULD BE OFFERED US FIRMS, NON-US ENTITIES, PARTICULARLY STATE ENTITIES, MIGHT BE INCLINED TO ACCCEPT HARDER TERMS THAN US FIRMS.

3. GENERAL TONE OF PARA 5, REF FMK REFLECTS PUBLICLY STATED GOM POLICY AND IS BASICALLY CORRECT, ALTHOUGH NUMBER OF TRAINEES YET UNKNOWN. US BANKS LOANS, IN FACT, NOT YET IN BAG. ALTHOUGH CHEMICAL LOAN SCHEDULED FOR SIGNING JUNE 5, NEGOTIATIONS RE CHASE LOAN ARE DIFFICULT AND AGREEMENT NOT EXPECTED FOR FEW WEEKS.

4. PARA 242 (PAGE 85) OF 1973 MID-TERM REVIEW OF SECOND MALAYSIA PLAN DESCRIBES AS GOAL MALAYSIAN OWNERSHIP OF SEVENTY PERCENT OF SHARE CAPITAL OF CORPORATIONS (THIRTY PERCENT TO BE HELD BY MALAYS, FORTY PERCENT BY NON-MALAY MALAYSIANS, THIRTY PERCENT BY FOREIGNERS) BY 1990. RECENT ELABORATION BY FIDA OF THIS CONCEPT TRANSMITTED KUALA LUMPUR A-54. IF SOURCE IN PARA 6 OF FMK IS TALKING ABOUT MALAYSIANS (OR GOM ON THEIR BEHALF), THEN FIFTY PERCENT BY 1980 (ALTHOUGH PUBLIC REFERENCE HAS BEEN TO 30 PERCENT FOR MALAYS BY 1990) FITS NICELY WITH GOALS DESCRIBED ABOVE. IF HE IS SAYING FIFTY PERCENT FOR MALAYS BY 1980, THIS IS FIRST INDICATION OF NOTABLE CHANGE OF POLICY. RE REFERENCE TO PLANTATIONS, TIN MINES AND CERTAIN OTHER FIRMS (MOSTLY BRITISH AND USUALLY 100 PERCENT FOREIGN OWNED), GOM HAS PUBLICLY EXPRESSED ITS UNHAPPINESS WITH THESE FIRMS AND IS ACTIVELY ENCOURAGING THEM TO ALTER EQUITY HOLDING TO CONFIRM TO NEW ECONOMIC POLICY GOALS. NOTABLE RESPONSE TO THIS IS HAW PAR TRANSACTION WHICH GIVES PERNAS SECURITY EFFECTIVE CONTROL OVER SUBSTANTIAL PORTION OF BRITISH TIN INDUSTRY IN MALAYSIA (SEPTTEL). TRADITIONAL TRADING
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COMPANIES ALSO IN CATEGORY BEING SO ENCOURAGED. RECENTLY PASSED INDUSTRIAL COORDINATION ACT (KUALA LUMPUR 2006) COULD BE MECHANISM INTENDED TO SPEED THIS PROCESS.
UNDERHILL

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NNN

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